



CALFED
BAY-DELTA
PROGRAM

Summary of CALFED Finance Planning Efforts and Next Steps

March 2003

Summary of Previous CALFED Finance Planning Efforts and Next Steps

This summary provides an overview of past financing efforts related to the CALFED Bay-Delta Program. A literature review was conducted to create an inventory of documents important to CALFED finance efforts, and to develop a short history of financing activities conducted for CALFED.

In the Record of Decision and the Framework Agreement, Stage I (Years 1-7) projected expenditures were estimated to be \$8.6 billion, roughly divided equally between State, Federal, and Local & Water User funding sources. Total appropriations for CALFED programs and projects over the first three years are estimated at about \$2 billion, as shown in Figure 1. The majority of the funding has been from State bond funds briefly described below.



Figure 1: CALFED Year 1-3 Funding

Financial planning for programs and projects that ultimately became part of the CALFED preferred alternative began before the formal creation of CALFED in 2000. For example, the 1992 Central Valley Project Improvement Act (CVPIA) included cost share targets for several projects that have since become components of the CALFED program.

To date, three State bonds funds have been approved that contribute funding to the CALFED Bay-Delta Program. In 1996, Proposition 204, the Safe, Clean, Reliable Water Supply Act, was passed, providing for a bond issue of \$995 million, \$450 million of which was specifically designated for ecosystem restoration projects under CALFED. In 2000, Proposition 13, the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act was passed, providing for additional funding of \$1.97 billion for water resource purposes. Much of these funds have contributed to meeting CALFED

objectives. Specifically, Chapter 9 of Proposition 13 included \$250 million for the CALFED Bay-Delta Program. Most recently, in 2002 Proposition 50, The Water Security, Clean Drinking Water, Coastal and Beach Protection Act, was passed providing \$825 million specifically for CALFED, and up to several hundred million more for statewide management activities that could contribute to CALFED.

A summary of the following reports is provided in this document:

- ◆ Central Valley Project Improvement Act; 1992
- ◆ Financing Options for Water-Related Infrastructure in California, 1996
- ◆ California's Water Future: A Framework for Action; June 9, 2000.
- ◆ CALFED Final Programmatic EIS/EIR; Technical Appendix Implementation Plan, which contains a Financing Plan (Section 5), July 2000
- ◆ CALFED Programmatic Record of Decision (ROD), August 28, 2000
- ◆ Broad-based User Fee, November 2000

At this time, CALFED is initiating a process to complete a CALFED finance plan. CALFED will work with agencies, stakeholders, and the Legislature to develop and implement the Finance Plan. Currently, a draft Finance Plan containing preferred options for funding all CALFED program elements is scheduled for fall 2003.

Key Principles and Policies in Prior Work

This section summarizes some key finance principles and policies identified in the documents noted above, and provides a brief overview of existing State and Federal laws regarding water resource financing.

Federal and State Laws – Cost share requirements

Federal laws such as the biennial Water Resources Development Acts passed by Congress govern cost sharing for federal agencies, particularly the U.S. Army Corps of Engineers. These federal laws that apply to water resources investments prescribe minimum non-federal cost shares necessary to allow for federal participation. In addition, certain principles and guidelines also restrict the ways that the federal government may participate in water resource financing.

Requirements for state cost share levels for water projects can be found in the State Water Code and in separate cost share agreements. Several CALFED documents also outline cost share targets for federal, state and local participants that contribute to programs and projects under CALFED oversight.

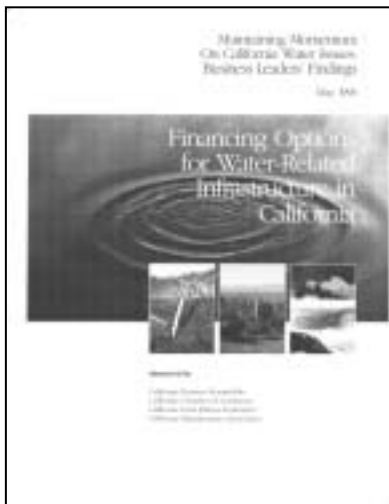
CVPIA Cost Shares

The Central Valley Project Improvement Act of 1992 included cost-share levels for several projects that were later included in the CALFED preferred alternative. Section 3406(b) of the CVPIA authorized a list of fish and wildlife restoration activities, including projects such as the removal of Saeltzer Dam on Clear Creek, that was later incorporated into the CALFED program. CVPIA cost share levels for most of the projects assigned one-quarter of the costs to the State, with remaining costs split equally between the federal government and local entities. Other cost share limits, such as 50-50% State and federal participation, were used for the remainder of CVPIA projects. A Restoration Fund was also created through the CVPIA, established by the U.S. Treasury to handle deposits from CVP water and power beneficiaries. Restoration funds have provided the majority of financing for CVPIA actions since 1993 (CVPIA 10-Year Report, 2002).

In 1994, USBR, USFWS, DWR and DFG signed the Central Valley Project Improvement Act Sharing of Costs Agreement for Mitigation Projects and Improvements (SCAMPI), concerning implementation of the CVPIA. The agreement allows for a large degree of flexibility between the signatories, and establishes principles, task orders, and other fundamental CVPIA cost sharing objectives.

Business Leaders' Findings

In 1996, a group of primarily business organizations sponsored a report titled *Financing Options for Water-Related Infrastructure in California*. The report stressed the need to



develop a comprehensive needs and benefits assessment for Bay-Delta planning purposes, and provided a thorough discussion of potential funding elements. It also supported the use of the “beneficiaries pay” principle, which was later incorporated into CALFED principles.

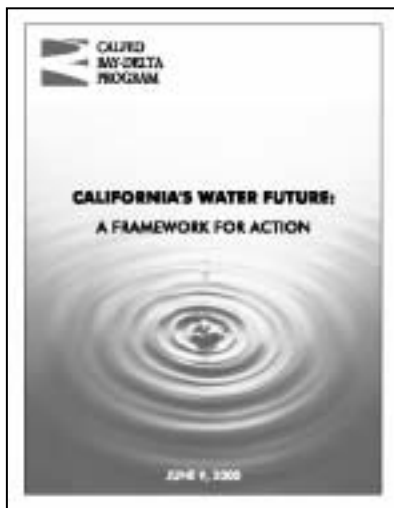
The document identified three primary funding sources for Bay-Delta infrastructure financing: federal funding, Bay-Delta General Obligation Bonds, and a Bay-Delta User Fee. The report also considered the creation of several new institutions: a Bay-Delta Financing Authority and Mitigation Credit Bank under the Authority, a State Water Infrastructure Bank, and a Blue Ribbon Commission on Water Industry Restructuring.

As described in the 1996 report, a Bay-Delta Financing Authority could be established to oversee the financing of all projects with general public benefits, solicit federal and State funding, and administer revenues from user fees. A tool that could be used by the Authority is a Mitigation Credit Bank, which, if created, would allocate financial credits

to those stakeholders willing to make investments early on in long-term Bay-Delta cost obligations. Creation of a State Water Infrastructure Bank could help local assistance programs by using the State's credit to achieve greater access to capital for local water service providers. The report recommended the appointment of a Blue Ribbon Commission on Water Industry Restructuring to investigate opportunities for public-private partnerships for State water infrastructure.

Another key topic discussed in the report was the possible creation of a broad-based user fee. Various combinations of fixed and variable fees were examined, using the current CVPIA fee structure and the SWRCB Decision 1630 fee proposal as models. Predicted annual fee revenues ranged from \$14.48 to \$72.40 million, depending on the particular fee schedule. The fees could be used to recover those parts of project costs that benefit all Bay-Delta water diverters.

A Framework for Action



In June 2000, the State and Federal Administrations issued a report entitled *California's Water Future: A framework for Action*. The Framework document is organized by CALFED program element, and provides preliminary estimates for funding requirements. It also describes State intentions for allocation of funds from Propositions 204 and 13 and outlines recommendations for total program funding during Stage 1 (the first seven years) implementation of CALFED's preferred alternative. The Framework document also proposes a user fee to generate about \$35 million annually for ecosystem restoration purposes. Much of the funding allocation information from the Framework report was incorporated into the CALFED Bay-Delta Program Final

Programmatic EIS/EIR and Programmatic Record of Decision.

Implementation Plan

In July 2000, as part of the Final Programmatic EIS/EIR, the CALFED Financing Plan was drafted (Section 5 of the Technical Appendix to the EIS/EIR). The Financing Plan represents the most recent effort to develop a formal process for CALFED financing and will be a useful reference in producing a more specific finance plan. For each program element, the Financing Plan identifies beneficiaries, describes guidelines for estimating benefits and cost allocation, and proposes financing and cost share options. Formal cost allocation techniques, such as the widely used Separable-Cost Remaining Benefits (SCRB) method, are also briefly described.

The Financing Plan also outlines the principle of “beneficiary pays.” According to the Plan, “A fundamental philosophy of the CALFED Program is that costs should, to the extent possible, be paid by the beneficiaries of the program actions.”



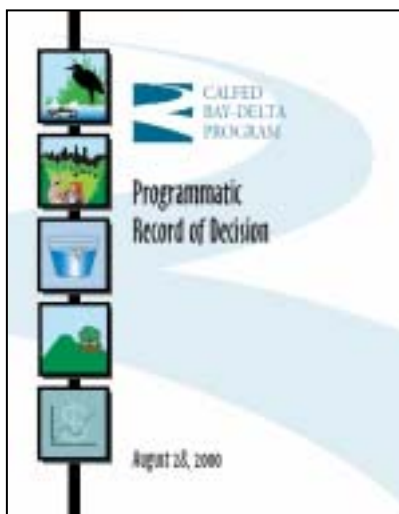
The report contains a list of potential funding mechanisms that could be used for CALFED programs is:

- General obligation bonds
- Water and power revenue bonds
- State appropriations
- Federal appropriations
- Private financing
- Broad-based user fee

The Financing Plan lists advantages and disadvantages for each mechanism, and includes a discussion on possible user fee approaches. For the user fee option, the Plan examines the potential revenue obtainable from a fee based on current CVPIA fees, charged on the amount of water delivered. The Plan also discusses earlier attempts to create a broad-based user fee, including the SWRCB draft D1630, which received strong opposition before being abandoned. The Financing Plan estimates, as an extremely rough approximation, that \$110 million in user fees could be collected annually if all State Water Project and Central Valley Project contractors, along with all other diverters with an impact on the Bay-Delta system, were charged.

A cost and benefit effort currently in the development stage that is mentioned in the Financing Plan is a “Multi-Objective Approaches to Floodplain Management on a Watershed Basis” study being conducted by the Department of Water Resources. The second component of the study involves developing a framework to estimate costs and benefits related to multi-objective floodplain management, and could be a useful tool for CALFED allocation decisions when the study is completed.

CALFED Programmatic Record of Decision



The CALFED ROD included several *solution principles* within its mission statement. These principles play a role in CALFED financing decisions:

- Reduce conflicts in the system – Solutions will reduce major conflicts among beneficial uses of water.
- Be equitable – Solutions will focus on solving problems in all problems areas. Improvements for some problems will not be made without corresponding improvements for other problems.

- Be affordable – Solutions will be implementable and maintainable within the foreseeable resources of the Program and stakeholders.
- Be durable – Solutions will have political and economic staying power and will sustain the resources they were designed to protect and enhance.
- Be implementable – Solutions will have broad public acceptance and legal feasibility, and will be timely and relatively simple to implement compared with other alternatives.
- Have no significant redirected impacts – Solutions will not solve problems in the Bay-Delta system by redirecting significant negative impacts, when viewed in their entirety, within the Bay-Delta or to other regions of California.

The ROD (Volume 1)) includes some funding guidelines, particularly with regard to how bond funds from Propositions 204 and 13 should be allocated between CALFED program elements (pp. 36, 38, 41, 46, 53, 64, 70).

The Ecosystem Restoration section of the ROD contains a discussion of possible funding sources for the program element, including the creation of a new user fee. According to page 38 of the ROD, “CALFED Agencies will work with local interests to develop State legislation to create a broad-based user fee that will generate approximately \$35 million annually.”

The Implementation Memorandum of Understanding in the ROD (Volume 1, Attachment 3), includes a discussion and list of programs and funding (Table 1) that existed at the time the ROD was signed that meet CALFED objectives and should be subject to CALFED review.

Implementing a Broad-based Bay-Delta Diversion Fee

Just after the ROD was signed, additional review and study was conducted under contract with the CALFED Bay-Delta Program, regarding a possible broad-based user fee. One of the main objectives of this report was to identify potential participants who might be charged fees for Bay-Delta water diversions and estimate possible water delivery quantities that might be subject to the user fee. The report documents water supply quantities used in revenue estimates and discusses implementation considerations.

The draft report provides background on users paying fees under the CVPIA restoration fund program, documents broad categories of water rights and diversions, and discusses types of deliveries that could be subject to the user fee. Depending on the types and numbers of water users, the report estimates that between 8.2 and 13.1 MAF of annual Bay-Delta diversions could be eligible for assessment if such a fee was implemented. For example a \$7/acre-ft agricultural and \$14/acre-ft municipal and industrial charge could generate between \$70.4 and \$104.8 million annually in diversion-based user fee revenues. The report suggests that water diversions currently charged through the CVPIA restoration fund program should not be charged again by any new Bay-Delta diversion fee.

Several other suggestions for future consideration were included in the report:

- Provide incentives to encourage the measurement of current Bay-Delta water deliveries.
- Consider exempting small water rights holders from potential future diversion fees.
- Seek authorization through state legislation if a diversion fee is recommended in the future.

Next Steps

We plan to produce a report that provides preferred options for a CALFED Finance Plan to the BDPAC and the Bay-Delta Authority by fall 2003. In order to complete the report we plan to perform the following for each Program element:

1. Meet with CALFED agencies, BDPAC members, and interested stakeholders to identify the key issues and information needed to reach agreement on how to pay for the CALFED program
2. Convene an independent panel to advise on the proposed approach to developing a Finance Plan and to advise on a draft report containing funding options
3. Identify, describe and classify the benefits, beneficiaries, and the costs for program implementation
4. Identify the resources and contributions currently dedicated to make the CALFED program possible
5. Develop and evaluate several future funding options

List of Key CALFED Finance Documents

- “Agreement for Cost Sharing Related to Ecosystem Restoration Under Proposition 204 and the Bay-Delta Act” (January 1998).
- CALFED Bay-Delta Program (February 2002). Annual Report 2001.
- CALFED Bay-Delta Program (March 1998). Draft Implementation Strategy, Draft Programmatic EIS/EIR Technical Appendix.
- CALFED Bay-Delta Program (2000). California’s Water Future: A Framework for Action.
- CALFED Bay-Delta Program (December 2000). Environmental Water Account Finance Plan.
- CALFED Bay-Delta Program (June 1999). Financing Plan, Draft Programmatic EIS/EIR Implementation Plan.
- CALFED Bay-Delta Program (July 2000). Financing Plan, Final Programmatic EIS/EIR Implementation Plan.
- CALFED Bay-Delta Program (July 2000). “Financing Plan”, Phase II Report.
- CALFED Bay-Delta Program (August 2000). Programmatic Record of Decision.
- CALFED Bay-Delta Program, Finance Workgroup (June 28, 2002). *Benefit and Cost Allocation Planning Process for CALFED Projects and Programs: Draft Principles and Methodologies Report*, internal working document.
- CALFED Bay-Delta Program, Finance Workgroup (November 1998). *Discussion of Financial Principles*, internal working document.
- CALFED Bay-Delta Program, Water Use Efficiency Subcommittee (October 2002). Revised WUE Implementation Funding Draft Policy Principles and Associated Activities.
- California Business Roundtable, California Chamber of Commerce, California Farm Bureau Federation, California Manufacturers Association (May 1996). *Maintaining Momentum on California Water Issues: Business Leaders’ Findings – Financing Options for Water-Related Infrastructure in California*.
- California Department of Water Resources (September 2002). *Multi-Objective Approaches to Floodplain Management on a Watershed Basis: Study Summary*.
- CVPIA, Central Valley Project Improvement Act Sharing of Costs Agreement for Mitigation Projects and Improvements (June 27, 1994).
- U.S. Department of the Interior, Draft “Implementation of the Central Valley Project Improvement Act, Ten-Year Report, Fiscal Years 1993-2002” (July 2002).
- Wahl, Richard W. (November 28, 2000). *Implementing a Broad-based Bay-Delta Diversion Fee, A Report to the CALFED Bay-Delta Program*, draft document.